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To: _Regulatory Comments
Subject: Comments on ANPR for Part 704

The following are my responses and comments to the issues raised in the Advanced Notice of Proposed Rulemaking regarding corporate credit unions.

1. The Role of Corporates in the Credit Union System
I believe the corporate system provides 3 primary services to natural person credit unions: a source of liquidity, a source for payment systems and a source for investment advice & execution of investments (and safekeeping of investments). Although all of these services can be obtained from other sources (federal reserve banks, FHLB and numerous investment firms), I firmly believe there is a role for corporate credit unions to provide these services. Based on our own experience we have found that the corporate credit union we use (Southwest Corporate) provides all of these services cheaper than we can obtain elsewhere - plus they provide value-added services and personal relationships that cannot be obtained through other sources.

Payment Systems
I do not believe there should be separate charters created for each role. The revenue generated from natural person CU deposits is often needed to support the costly payment systems role. It would be very difficult to provide payment systems services on a stand-alone basis. Corporate credit unions should be given the authority to engage in all of the services they are capable of providing in a safe, secure manner. I do agree, however, that *NCUA should require higher minimum levels of capital based on the number and level of services provided and the level of risk presented by each activity. I also agree that legal and operational firewalls should be established between payment system services and the other services.*

Liquidity & Liquidity Management
In order to protect and reinforce corporate CUs role in liquidity management, *I recommend that the expanded investment authorities granted to corporate credit unions be rescinded and that cash flow duration limitations be enforced. Corporates should only be allowed to invest in safe, fairly liquid investments with short duration.* Part of the problem corporates are experiencing is due to reaching for yield and trying to maximize earnings. By restricting their investment authorities and limiting the duration of their portfolio (through strict NEV requirements), it would remove most of their liquidity risk. Preferably, the investment portfolio should be laddered with significant portions maturing on a monthly basis to fund credit union needs and a large sum maintained in overnight investments.

To provide an additional source of liquidity for corporate credit unions, I also recommend that NCUA seek legislation that would grant corporate credit unions direct borrowing authority from the Central Liquidity Facility.

Field of Membership Issues
NCUA should return to defined fields of membership for corporate credit unions. There are also too many corporate credit unions. *Preferably, fields of membership should be divided among 12 regions - either based on the FHLB regions or Federal Reserve districts.* If more than one corporate credit union serves any region, the NCUA should encourage and promote merger discussions between the corporates within the same region. Mergers would likely create economies of scale and combine expertise. By having one corporate credit union in each region with FOM limited to natural person credit unions only located within that region - you remove the incentive to chase yields to attract clients and you also gain individually stronger corporate credit unions through consolidation.

Expanded Investment Authority / Permissible Investments
Since the primary role of corporate credit unions is to provide a source of liquidity, *I believe that all expanded investment authorities should be rescinded.* The investments in lower-rated MBS/ABS made by corporate credit unions are the root cause of the problem we are currently experiencing. Corporates should not be allowed to take excessive credit risk when their primary role is providing liquidity.

Structure: Two-Tiered System
There is no longer a need for a wholesale corporate credit union. The best solution would be to gain legislative authority for corporate credit unions to borrow directly from the CLF. The CLF would then serve as the main source of liquidity for

corporate credit unions instead of US Central. As demonstrated by the current situation, too much risk was transferred from the retail corporates to US Central and when US Central began experiencing large OTTI write-downs, the whole corporate system was put at risk. US Central could become a regional retail corporate or be dissolved with assets distributed to the retail corporates based on their participation levels with US Central.

Corporate Capital

I agree that *risk-based capital requirements should be established for the corporate credit unions* - and include membership capital in the ratio calculation. The base required capital ratio could probably remain at 4% but higher levels could be required based on the level of risk (credit risk, interest rate risk, liquidity risk) within each invidual corporate credit union's balance sheet. The ratio could be calculated semi-annually based on "average assets" for the 6 month period. *All member natural person credit unions should be required to contribute core capital to the corporate in order to use their services and withdrawals of membership capital should be conditioned on the corporate's ability to meet their capital requirements following withdrawal.*

NOTE: When seeking legislative approval for corporates to maintain capital levels based on risks within the balance sheet, the same authority should be sought for natural person credit unions.

Credit Risk Management

If NCUA rescinded the expanded investment authorities granted to corporates, a lot of credit risk would be mitigated. However, I agree that it is prudent to *obtain more than one rating by a NRSRO for each investment and that the lowest rating should meet the minimum requirements established by NCUA. Concentration limits by sector and obligor should also be established by NCUA in consultation with bond experts.* Perhaps PIMCO could be hired to provide guidance on policy limitations to be established by NCUA and as a source for independent evaluations of credit risk in corporate credit unions on an annual basis.

Asset Liability Management

NCUA should reinstitute the corporate rule requiring net interest income modeling and stress testing. Other mandatory modeling should also be required based on feedback or recommendations from PIMCO.

Corporate Governance

I agree with the idea of establishing more stringent qualifications to sit on a corporate board and I like the idea of one board seat being held by an "outside director". Preferably the outside director would have expertise in bonds and investment management. Some minimum level of education and expertise should be established for all corporate directors. CFO's of large credit unions would likely be better candidates than credit union CEOs, in many instances. Each corporate should have a Chief Economist who would also hold a board seat and could be a paid director. For example, Dr. Charles Idol, the chief economist for SW Corporate CU is well-respected and extremely knowledgeable in ALM and investments. Although he advises the board, his position should have voting power. I do not agree with term limits or that all directors should be paid.

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